



LEGISLATIVE FISCAL OFFICE
Streamlining Commission Analysis

Recommendation No. **RECOMMENDATION 45**
Streamlining Draft **AGITI 3**

Date: November 19, 2009 10:55 AM	Author:
Dept./Agy.: Executive/DOA	Analyst: Evan Brasseaux
Subject: ERP	

Continue the implementation of the LaGov (ERP) project

The Streamlining Commission recommendation directs the Division of Administration to continue the implementation of the LaGov (ERP) project

EXPENDITURES	2010-11	2011-12	2012-13	2013-14	2014-15	5 -YEAR TOTAL
State Gen. Fd.	DECREASE	INCREASE	INCREASE	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2010-11	2011-12	2012-13	2013-14	2014-15	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

EXPENDITURE EXPLANATION

The DOA is in the second year of a three year process of implementing an Enterprise Resource Planning (ERP or LaGov) project that will replace the state’s existing system at a projected cost of \$100 million. The new system will replace 41 existing systems which average 15-20 years of age, are costly to maintain and lack integration. DOTD, which has major system deficiencies in its 30 year old system and is considered the most “at-risk” of system failure, will be integrated into this new system on a “pilot” basis.

As of October 1, 2009, a total of \$52 million has been spent on the project and is currently in the testing phase. A total of \$39.3 million is budgeted in FY 10. The DOA has recently agreed to “pilot” the implementation of the ERP with DOTD in FY 11. The current timeline projected by the DOA has the system “going live” for DOTD on September 27, 2010. The remainder of state agencies will “go live” on October 1, 2012.

Postponement of ERP implementation across state government will result in short-term cost avoidance of approximately \$10 million in FY 10 and 11. This cost avoidance is realized primarily in professional service contracts for staff augmentation (STA- \$3 million) and ERP integration (IBM- \$5.5 million). The remainder of the cost avoidance is realized in personal services costs for state employees involved in ERP implementation and \$500,000 for reconfiguration of the Human Resources system in conjunction with ERP implementation.

The piloting of DOTD only in FY 11 will require that the DOA seek bids through the RFP process once again in FY 11 to complete implementation. According to estimates provided by the DOA, delaying implementation of the ERP until FY 13 will result in an increase in professional services and personnel costs by approximately \$20 million over what was originally projected for the project’s completion in FY 11.

Therefore, delay of the ERP project will result in short-term cost avoidance of approximately \$10 million but will ultimately increase the cost over original projections by approximately \$20 million (based upon DOA estimates). Continued on page 2

REVENUE EXPLANATION

There is no anticipated direct material effect on governmental revenues as a result of this measure.

Senate	Dual Referral Rules	House	
<input type="checkbox"/> 13.5.1 >= \$500,000 Annual Fiscal Cost		<input type="checkbox"/> 6.8(F) >= \$500,000 Annual Fiscal Cost	H. Gordon Monk
<input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change		<input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease	Legislative Fiscal Officer



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CONTINUED EXPLANATION from page one: Page 2 of 2
Expenditures continued:

A cost-benefit analysis performed by STA (under contract with DOA for staff augmentation related to ERP project) estimates \$286 million in total savings from avoided system costs and process improvement benefits within 10 years of statewide implementation. As part of that savings, a total of \$38.6 million, or 13.5% would come from employee reduction costs associated with improved technology. This figure is based upon implementation of similar systems in Kansas and Minnesota. The DOA has not provided a plan to implement these employee reductions associated with the ERP implementation.

Benefits of an ERP include reducing risk associated with aging legacy systems, reduces staffing required to maintain multiple systems, and the opportunity to implement more efficient business processes. The DOA has noted that states such as Kansas estimate ERP savings of \$90.2 million over 12 years, Minnesota \$127 million over 11 years, and Tennessee \$186 million over 10 years. The breakeven timeframes typically range from 8 to 12 years.

The most significant risk currently, as mentioned above, is the legacy system used by DOTD which is written in obsolete programming language making maintenance a major issue. Upon completion of this project, DOTD will have the ability to bill the FHWA on a daily basis, which creates positive flow and the ability to pay its contractors more quickly. DOTD currently bills the FHWA only five times per month due to the complicated processes associated with federal billing. Should the existing system malfunction, DOTD could be unable to provide the necessary documentation to the FHWA in order to draw down its federal match and be unable to pay its contractors as a result. The DOA has noted that it has investigated the cost of a stand-alone system for DOTD should the ERP be terminated and found that the cost would be approximately \$90 million which includes the costs already incurred for this project.

<u>Senate</u>	<u>Dual Referral Rules</u>	<u>House</u>	
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